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STEETLEY INDUSTRIES LIMITED

Annual Report 1976



Steetley Industries Limited

Annual Report 1976

Financial Highlights

1976

1975

Dollars in thousands except as indicated*

Sales	\$ 81,836	\$ 75,381
Net Earnings	\$ 1,142	\$ 2,143
Net Earnings per Common Share	\$ 1.20*	\$ 2.26*
Dividends Declared — Per Common Share	\$.70*	\$.72½*
Capital Expenditures	\$ 1,383	\$ 1,021
Depreciation & Depletion	\$ 1,298	\$ 1,214
Working Capital — Year End	\$ 16,795	\$ 17,154

The Annual Meeting will be held at the Head Office of the Corporation, 605 James Street North, Hamilton, Ontario on Thursday, March 24, 1977 at 10:00 a.m.



Steetley Industries Limited

Directors, Executive Officers and Other Executives

Directors H. M. Griffith, Toronto, Ontario
D. H. Henderson, Hamilton, Ontario
T. E. Ladner, q.c., Vancouver, British Columbia
J. Laird, Worksop, Notts, England
C. W. Lewis, q.c., Toronto, Ontario
P. Roberts, Worksop, Notts, England
H. Smith, London, England
J. S. Spearing, F.C.A., Hamilton, Ontario

Executive Officers J. Laird, Chairman of the Board
J. S. Spearing, President & Chief Executive Officer
H. E. Baker, F.C.A., Secretary-Treasurer

Other Executives **HEAD OFFICE**

J. A. Gabriel, c.a., Chief Financial Officer
D. R. Foy, B.A., B.Com., Chief Personnel Officer

MINERALS GROUP

I. C. McGregor,
Vice-President — Minerals Group

*CANADA CRUSHED STONE
QUEENSTON QUARRIES*

DISTRIBUTION GROUP

G. G. Dunnigan, B.A., M.B.A.
Vice-President — Distribution Group

*VALLANCE BROWN & CO. LIMITED
MULTICUT LIMITED
NORTHERN CANADA SUPPLY, LIMITED
FLECK BROS. LIMITED
GOUGH & COMPANY LTD.
MILLS STEEL PRODUCTS LIMITED*

Steetley Industries Limited

Directors' Report

To the Shareholders of
Steetley Industries Limited

Your Board of Directors takes pleasure in submitting the Twenty-sixth Annual Report of the Company together with the Consolidated Balance Sheet and related financial statements for the year ended December 31, 1976 together with the auditors' report to the Shareholders.

FINANCIAL

The Canadian economy did not respond with any meaningful growth in 1976 following depressed trading conditions in 1975. In addition, the construction industries, serviced by all our companies and divisions, were at an all time low compounded by strikes and lockouts in both the Provinces of Quebec and British Columbia.

Our approach to the market is still long term, in that we plan to be in a position to fully respond to an upturn in the Canadian economy which, although still showing no signs of a recovery, must eventually come.

With the exception of Mills Steel Products, remarked upon later in the report, all companies and divisions were profitable in 1976.

Sales in 1976 rose to \$81,836,235 from \$75,380,530 recorded in 1975, but after making allowances for inflation, which although decreasing is still a factor, the real growth was less.

Strict control was exercised over expenses, but the reduction from budget in all categories was not sufficient to counteract decreased gross margins, particularly in the Distribution Group, where competition in the market place was, and continues to be, intense. Net earnings after income taxes as a result, dropped to \$1,141,623 in 1976 from \$2,143,214 earned in 1975. Earnings per share were \$1.20 compared with \$2.26 reported in 1975.

National Slag Limited, which is now included in the financial statements on an equity basis, recorded another successful year, with increasing royalties from around the world on a patented pelletizing process developed by its management.

Inventories at \$14,794,158 rose by just over \$1,000,000 from 1975, slightly less than the percentage increase in sales. However, stocks remain under close scrutiny in relation to the anticipated level of sales.

The first repayment instalment of \$350,000 in respect of the 20 year Debenture becomes payable in December 1977; this amount is now included under Current Liabilities.

Working Capital, at \$16,794,716 decreased slightly from 1975, but the Balance Sheet continues to record a very strong financial position. Shareholders' Equity rose to \$18,569,813 reflecting a book value per share of \$19.55 compared with \$19.05 last year.

OPERATIONS — MINERALS GROUP

Sales tonnages were lower in 1976 due to a number of reasons — unusually wet and cold weather, a restricted highway improvement programme and a weak construction market overall. However, earnings compared favourably with 1975.

The dried fines plant at Canada Crushed Stone supplying a specialty product to the glass and fertilizer industries underwent a major improvement programme leading to a better quality product, and the ability to expand production further in the future.

The expected report by the Niagara Escarpment Commission on the future land use on the Escarpment has not yet been tabled. We are, therefore, no further ahead at Queenston Quarries regarding the rezoning of the 34 acres so essential for the future life of the quarry and economic stability in the local community. We are concerned with the length of time it takes to obtain a decision from the various authorities involved — we have been endeavouring since late 1971 to secure permission to quarry this land. We are very conscious of our responsibilities relative to rehabilitation of the land we quarry and this is evidenced by the fact that for the last three years we have been awarded a Property Improvement Award from the Aggregate Producers Association of Ontario.

OPERATIONS — DISTRIBUTION GROUP

The Distribution Group now comprises six companies with 43 branches in Ontario, Quebec, Alberta, British Columbia and The Yukon. Sales are approaching \$74 million and with the new branches gaining momentum in Alberta, we are budgeting for increased volume in real terms for 1977.

In spite of increased sales in 1976, earnings from the Group dropped substantially compared with 1975 levels. Distribution, because of the nature of its activities is very people intensive, creating cost pressures in times of restricted growth. Further, and equally significant at this particular time, severe competition in the market place has caused an erosion of margins.

Our objective in 1977 is to return gross margins and net profits to acceptable levels.

The new Hamilton Industrial Branch at Vallance Brown was opened on schedule in March, together with a modernization and expansion of the existing Electrical Branch located at the original premises on Shaw Street.

In Vancouver, Gough Electric has operated for a number of years at two locations which are not in the most advantageous position for traffic flow, we have therefore successfully negotiated a long term lease for a new 60,000 square foot warehouse well located near the Grandview Highway. This will give better service to our customers coupled with operating efficiencies. In addition, the Abbotsford Branch has been enlarged.

Fleck Bros. continues to grow and consolidate its position in Alberta through its substantial branches in Edmonton and Calgary. Fleck, in Alberta, is concentrating its marketing efforts on safety supplies and industrial products including hydraulics, valves, flexible hose, pumps and industrial specialties in which it has developed considerable know-how and expertise.

Early in February 1977, Vallance Brown purchased Multicut Limited in West Toronto — a small company specializing in custom profile cutting of steel. This dovetails well with Vallance Brown's Steel Service Centre in Hamilton and will complement its activities by offering a further service.

Mills Steel Products, which is entirely dependent upon the construction industry, experienced a poor year and reported a trading loss. As well as slightly lower sales, margins were adversely affected in a very competitive and unstable market.

Mills, which in addition to manufacturing concrete forming hardware and building products, also acts as a distributor for a number of manufacturers. Mills has, therefore, now been included in the Distribution Group under the overall direction of Gerald G. Dunnigan, Vice President — Distribution Group. We expect to achieve operating efficiencies and will introduce new manufactured products not entirely dependent upon the construction market. In this regard, we are entering the manufacture and distribution of dock lifters and levellers, plus a unique sizing and screening system on a licensing basis for use in quarrying, coal mining, steel and other industrial applications.

DIVIDENDS

Four regular quarterly dividends of 17½¢ per share were paid during the year making a total distribution

of 70¢ per share. A quarterly dividend of 17½¢ per share has been declared payable March 15, 1977.

BOARD OF DIRECTORS AND MANAGEMENT

Mr. D. H. Henderson, who has been a Director since the incorporation of the Company in 1951, is not standing for re-election at the forthcoming Annual Meeting. We are grateful for his unique and invaluable contribution to our affairs for over 50 years in a number of management positions including President of the Company. We will miss his wise counsel and wish him health and happiness in the years ahead. Mr. Robert J. A. Fricker, Vice-Chairman of Dominion Bridge Company Limited, has been nominated as a Director of the Company to fill this vacancy.

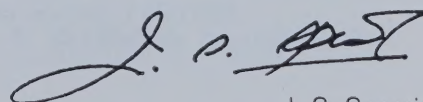
One senior appointment was made during the year — Ian C. McGregor, who has a broad experience in mining and quarrying, joined the Company as Vice President — Minerals Group on October 1, 1976.

PROSPECTS

We enter 1977 amid continuing sluggish economic conditions and forecast real growth in the economy of only 3% for the year. Furthermore, the extremely harsh weather conditions in Eastern Canada have adversely affected quarrying and construction operations early in the year and we are experiencing repercussions in many of our Distribution activities. A great deal will depend on government action, particularly to encourage capital investment and expansion. On the brighter side, bank interest rates have dropped 1½% over the last couple of months, and there is some optimism that business will improve in the United States which should spill over into Canada. We detect some signs of a slow, but sure improvement in business conditions in British Columbia where we have substantial interests.

Our sincere appreciation is given to all employees in the Steetley Group for their dedication and support in a very difficult year.

To our customers and suppliers — "Thank You" for your continued support.



Hamilton, Ontario
March 1, 1977.

J. S. Spearing
President and
Chief Executive Officer.



Steelley Industries Limited and Subsidiaries

Consolidated Balance Sheet

as at December 31

ASSETS

	1976	1975
Current Assets		
Cash and short-term investments	\$ 83,561	\$ 82,819
Accounts receivable	14,038,710	13,557,644
Accounts receivable — Parent company	110,689	70,575
Inventories — at the lower of cost or net realizable value	14,794,158	13,787,808
Prepaid expenses	150,601	96,800
	<u>29,177,719</u>	<u>27,595,646</u>
Other Assets		
Investment in corporate joint venture	422,467	417,911
Scaffold equipment — at cost less accumulated depreciation	1,136,146	863,322
Cash surrender value of life insurance	135,293	113,853
Mortgage receivable	—	30,400
	<u>1,693,906</u>	<u>1,425,486</u>
Fixed Assets (Note 3)	<u>9,081,589</u>	<u>8,854,993</u>
	<u>\$ 39,953,214</u>	<u>\$ 37,876,125</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Bank advances	\$ 4,287,613	\$ 4,127,647
Accounts payable and accrued liabilities	7,274,092	5,825,994
Income and other taxes	456,898	425,865
Current portion of long-term debt	364,400	61,831
	<u>12,383,003</u>	<u>10,441,337</u>
Other Liabilities		
Long-term debt (Note 4)	7,729,398	8,093,798
Deferred income taxes	1,271,000	1,247,800
	<u>9,000,398</u>	<u>9,341,598</u>
Shareholders' Equity		
CAPITAL STOCK		
Authorized		
5,000 6% Cumulative redeemable (at \$105) sinking fund preference shares of a par value of \$100 each		
1,000,000 Common shares without nominal or par value		
Issued		
950,000 Common shares	95,000	95,000
RETAINED EARNINGS	18,474,813	17,998,190
	<u>18,569,813</u>	<u>18,093,190</u>
	<u>\$ 39,953,214</u>	<u>\$ 37,876,125</u>

SIGNED ON BEHALF OF THE BOARD — J. S. Spearing, *Director*; D. H. Henderson, *Director*

Steetley Industries Limited and Subsidiaries

Consolidated Statement of Earnings and Retained Earnings

for the years ended December 31

	1976	1975
Sales (Note 5)	\$ 81,836,235	\$ 75,380,530
Earnings from operations before the following charges:	3,204,082	5,254,766
Depreciation	1,275,067	1,189,655
Depletion	22,898	24,747
	1,297,965	1,214,402
Earnings from operations	1,906,117	4,040,364
Investment income	339,556	303,246
Earnings before taxes on income and minority shareholders' interest	2,245,673	4,343,610
Taxes on income	1,104,050	2,177,500
	1,141,623	2,166,110
Minority shareholders' interest	—	22,896
Net Earnings for the Year (Note 5)	1,141,623	2,143,214
Retained Earnings — Beginning of Year		
Previously reported	17,998,190	16,162,488
Equity accounting adjustment	—	381,238
	19,139,813	18,686,940
Dividends — Common	665,000	688,750
Retained Earnings — End of Year	\$ 18,474,813	\$ 17,998,190



Steeley Industries Limited and Subsidiaries

Consolidated Statement of Changes in Financial Position

for the years ended December 31

	1976	1975
Source of Funds		
Net earnings for the year	\$ 1,141,623	\$ 2,143,214
Items not affecting working capital —		
Equity in net earnings of corporate joint venture		
in excess of dividends received	(4,556)	(24,173)
Gain on sale of fixed assets	(5,752)	(12,983)
Depreciation and depletion	1,297,965	1,214,402
Deferred income taxes	23,200	375,600
Minority interest share of earnings	—	22,896
	<u>2,452,480</u>	<u>3,718,956</u>
Current maturity of mortgage receivable	30,400	1,720
Proceeds on disposal of fixed assets	52,408	47,436
	<u>2,535,288</u>	<u>3,768,112</u>
Use of Funds		
Purchase of shares of subsidiary	—	464,544
Purchase of fixed assets	1,382,743	1,021,191
Net additions to scaffold equipment	461,298	379,519
Increase in cash surrender value of life insurance	21,440	5,821
Current maturity of debentures	350,000	—
Decrease in mortgages payable	14,400	66,996
Dividends paid to minority shareholders	—	12,157
Dividends paid	665,000	688,750
	<u>2,894,881</u>	<u>2,638,978</u>
Increase (Decrease) in Working Capital	(359,593)	1,129,134
Working Capital — Beginning of Year	17,154,309	16,025,175
Working Capital — End of Year	\$ 16,794,716	\$ 17,154,309

Auditors' Report

COOPERS & LYBRAND

CHARTERED ACCOUNTANTS

To The Shareholders
Steeley Industries Limited

We have examined the consolidated balance sheet of Steeley Industries Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Ontario
January 31, 1977

Coopers & Lybrand

Steetley Industries Limited and Subsidiaries

Notes to the Consolidated Financial Statements

for the year ended December 31, 1976

1. Significant Accounting Policies

Basis of Consolidation: These financial statements include the accounts of the company and all of its subsidiaries. The investment in a corporate joint venture is accounted for on the equity basis.

Depreciation and Depletion: Fixed assets acquired prior to January 1, 1975 are depreciated on the reducing balance basis. The straight line basis of depreciation is used for fixed assets and equipment acquired subsequent to December 31, 1974. Depreciation rates used are intended to write off the cost of the assets over their estimated useful lives.

2. Anti-inflation Act

The company is subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975 and are scheduled to expire December 31, 1978.

3. Fixed Assets

		1976			1975
	Cost	Accumulated Depletion	Accumulated Depreciation	Net	Net
Land	\$ 479,865	\$ —	\$ —	\$ 479,865	\$ 479,865
Buildings	3,286,554	—	1,315,563	1,970,991	1,735,774
Plant and equipment	15,195,526	—	9,008,188	6,187,338	6,228,237
Leasehold improvements	225,582	—	135,170	90,412	35,235
	18,707,662	—	10,458,921	8,248,741	7,999,246
Stone quarries	1,202,773	849,790	—	352,983	375,882
	<u>\$20,390,300</u>	<u>\$849,790</u>	<u>\$10,458,921</u>	<u>\$9,081,589</u>	<u>\$8,854,993</u>

4. Long-term Debt

	1976	1975
Mortgages payable	\$ 93,798	\$ 155,629
12% Sinking fund debentures Series A due December 16, 1994 to be retired by principal deposits per annum as follows: 1977-1983, \$350,000; 1984-1988, \$450,000; 1989-1993, \$550,000	8,000,000	8,000,000
	8,093,798	8,155,629
Less: Current portion	364,400	61,831
	<u>\$7,729,398</u>	<u>\$8,093,798</u>

5. Statutory Information

(a) Sales by major business classifications are as follows:

	1976	1975
Distribution	\$73,761,123	\$67,595,430
Minerals	8,075,112	7,785,100
	<u>\$81,836,235</u>	<u>\$75,380,530</u>

(b) Remuneration of directors and officers for the year was \$343,349 (1975 — \$346,483).

(c) Interest on long-term debt for the year was \$969,170 (1975 — \$975,898).

	1976	1975
(d) Earnings per Common Share:	<u>\$1.20</u>	<u>\$2.26</u>



Steetley Industries Limited and Subsidiaries

Statistical Summary

Dollars in thousands except per share statistics

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Operating Results										
Sales	\$ 81,836	75,381	76,397	60,914	43,734	37,660	19,786	15,881	14,052	6,298
Depreciation & Depletion	\$ 1,298	1,214	982	905	874	760	569	483	531	541
Earnings before Taxes	\$ 2,246	4,344	6,681	4,330	2,619	2,270	1,719	1,277	1,738	983
Taxes on Income	\$ 1,104	2,178	3,284	2,049	1,124	1,039	829	625	904	441
Minority Interest	—	23	112	62	38	24	37	38	37	—
Net Earnings										
Before Extraordinary Items	\$ 1,142	2,143	3,284	2,219	1,457	1,207	853	614	797	542
Extraordinary Items	—	—	262	—	—	—	—	—	—	—
Net Earnings	\$ 1,142	2,143	3,547	2,219	1,457	1,207	853	614	797	542
Financial Position										
Working Capital	\$ 16,795	17,154	16,025	9,779	8,472	7,983	7,690	5,767	5,473	4,472
Property, Plant & Equipment	\$ 9,082	8,855	8,914	5,113	4,623	4,315	3,507	2,981	2,864	2,685
Other Assets	\$ 30,871	29,021	27,397	22,236	17,733	15,669	12,079	8,199	8,363	5,419
Total Assets	\$ 39,953	37,876	36,311	27,349	22,356	19,984	15,586	11,180	11,227	8,104
Long Term & Other Liabilities	\$ 9,000	9,341	9,487	2,222	2,189	2,438	2,526	674	667	90
Shareholders' Equity	\$ 18,570	18,093	16,639	13,264	11,460	10,345	9,144	8,526	8,126	7,348
Per Share										
Net Income	\$ 1.20	2.26	3.73	2.34	1.53	1.27	.90	.65	.84	.57
Dividends	\$.70	.72½	.57	.45	.36	.29	.24	.24	.24	.24
Book Value	\$ 19.55	19.05	17.52	13.96	12.06	10.89	9.63	8.97	8.55	7.73

Corporate Information

Head Office Harbour Administration Building
Hamilton, Ontario

Divisions Canada Crushed Stone — Dundas Quarry
Produces high grade dolomite stone for metallurgical, agricultural and commercial uses.

Queenston Quarries — Niagara Falls, Ontario
Produces commercial crushed stone, "Queenston Limestone" building stone, and asphaltic concrete.

Subsidiary Companies Vallance Brown & Co. Limited — Hamilton, Ontario
Distributes industrial, safety and electrical supplies in Southern Ontario. A steel service centre serves Toronto and the Niagara Peninsula.

Multicut Limited — Toronto, Ontario
Specializes in custom profile cutting of steel.

Northern Canada Supply, Limited — Oshawa, Ontario
Distributes industrial supplies in Northeastern and Southeastern Ontario and Northwestern Quebec.

Fleck Bros. Limited — Vancouver, British Columbia
Distributes industrial, and safety supplies in British Columbia, Alberta and The Yukon.

Gough & Company Ltd. — Vancouver, British Columbia
Distributes electrical supplies in British Columbia and The Yukon.

Mills Steel Products Limited — Hamilton, Ontario
Manufactures and distributes construction structural accessories.

Ritchie Cut Stone Holdings Limited — Hamilton, Ontario
An investment holding company.

Associated Company National Slag Limited — Hamilton, Ontario
Processes blast furnace slag into aggregates for road construction and civil engineering.

Registrar and Transfer Agents National Trust Company Limited — Toronto, Ontario

Auditors Coopers & Lybrand

